

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Maze Analyst: Darrine Distefano Bill Number: AB 211
Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 01-29-2003
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Homeowner's Property Tax Exemption/Senior Citizens

SUMMARY

This bill would increase the homeowner's property tax exemption for individuals 62 years or older.

PURPOSE OF THE BILL

It appears that the purpose of this bill is to assist senior citizens by decreasing the property tax paid on their homes.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

State law requires a taxpayer that owns real estate not used for business to be assessed a tax on that property at a specified percentage. The county where the property is located generally assesses this tax. The first \$7,000 of the full value of the taxpayer's dwelling is exempted from that property tax.

The Franchise Tax Board (FTB) does not administer the property tax exemption within the Revenue & Taxation Code; however, the exemption impacts some of the non-tax programs administer by FTB, such as the Homeowner's and Renter's Assistance (HRA) program.

For HRA claimants, existing state law provides partial reimbursement of the previous fiscal year's property taxes on a personal residence paid directly by a homeowner and indirectly by a renter.

Relief for homeowners and renters is based on a percentage of the amount of property tax paid in a given year, less the homeowner's property tax exemption. To be eligible for assistance, claimants must be 62 years of age, blind, or disabled.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ PENDING

Department Director
Gerald H. Goldberg

Date
03/04/03

The California Constitution requires the Legislature to provide increases in benefits to qualified renters, as defined by law, comparable to the average increase in benefits provided under the homeowner's property tax exemption.

THIS BILL

This bill would increase the amount of the homeowner's property tax exemption from \$7,000 to \$17,000 of the full value of the dwelling for individuals that are 62 years or older beginning on or after January 1, 2004. This bill would reduce the amount of property tax paid by individuals 62 years or older, resulting in less itemized deductions on the tax return. All other individuals would continue to receive a property tax exemption of \$7,000.

If the individual failed to claim the exemption timely, this bill would allow the individual to file an affidavit with the assessor for an exemption of a lesser amount. The amount would be equal to the lesser of \$13,600 or 80 percent of the full value of the dwelling.

This bill also expresses the Legislature's intent to provide a comparable benefit to qualified renters aged 62 or older.

In addition, this bill would make a number of technical changes.

IMPLEMENTATION CONSIDERATIONS

Due to the reduced property tax paid by individuals 62 or older, this bill would indirectly impact homeowners claiming assistance under the HRA program. As a result, certain homeowners may no longer qualify for the HRA program or their assistance amount may be reduced due to less property tax being paid. The department's HRA program estimates that this bill would eliminate approximately 10,000 HRA claimants.

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 82 (Dutton 2003/04) would increase the amount of the existing homeowner's property tax exemption for all taxpayers, and increase the amount of the existing nonrefundable renters' credit. This bill is currently in Assembly Revenue & Taxation Committee.

OTHER STATES' INFORMATION

Illinois provides a Circuit Breaker Grant to refund money to seniors citizens aged 65 and older that paid property taxes, mobile home taxes, rent, or nursing charges. *Illinois* also provides a tax credit for property taxes paid on a principal residence, mobile home, and property purchased for all residents.

Massachusetts provides a credit to a tenant or owner of residential property who is 65 years or older. If the real estate tax payment or the rent that constitutes the real estate tax payment exceeds 10% of the taxpayer's total income, the amount of the credit provided would equal that tax payment.

Michigan provides a credit to senior citizens 65 years or older for property taxes or rent paid on a homestead. *Minnesota* allows senior citizens 65 years or older to postpone or defer payment on a portion of their homestead property taxes. *New York* provides a credit to senior citizens 65 years or older for part of the real property taxes or rent paid.

Florida has no personal income tax; therefore a comparison cannot be made.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Revenue Gain (\$ Millions)			
Fiscal Year	2004-05	2005-06	2006-07
Revenue Gain	+1.5	+3.0	+3.0

Revenue gains under the Personal Income Tax law are the result of smaller property tax deductions by qualified taxpayers. The increased property tax exemption provides a smaller property tax deduction that results in a higher income tax liability.

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The increase in the homeowner's exemption is \$10,000 (\$17,000 minus \$7,000) resulting in a property tax reduction of \$108 (\$10,000 times average 1.08% property tax rate). The reduction was multiplied by the number of eligible taxpayers (individuals 62 years or older) and an average marginal income tax rate (\$108 times 400,000 taxpayers times 7% equals \$3 million).

In the first fiscal year 2004-05, the revenue gain is half of subsequent years (\$1.5 million) because it reflects the first installment of property tax due for the 2004-05 property tax cycle. Most qualified taxpayers would probably not adjust their withholding or estimated tax payments during the year to reflect a \$7.50 increase in their income tax (\$108 times 7%).

LEGISLATIVE STAFF CONTACT

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